

Australian Masters Equity Fund

Performance Report to 31st December 2014

Investment objective

The fund aims to outperform the S&P/ASX300 Accumulation Index over a rolling three year period.

Investment strategy

The Australian Masters Equity Fund is designed to provide investors with access to some of Australia's top fund managers that are normally only accessible to high net worth investors.

The current three underlying funds all have distinctively different methods of investing, providing exposure to the entire breadth of the market. They are highly transparent, 'long only' investors and do not use derivatives or gearing. The size of their individual funds allows them to remain nimble enough to trade quickly as market conditions change, and helps eliminate the possibility that they become index funds.

Distribution frequency Half yearly **Suggested minimum investment time frame** 5 years

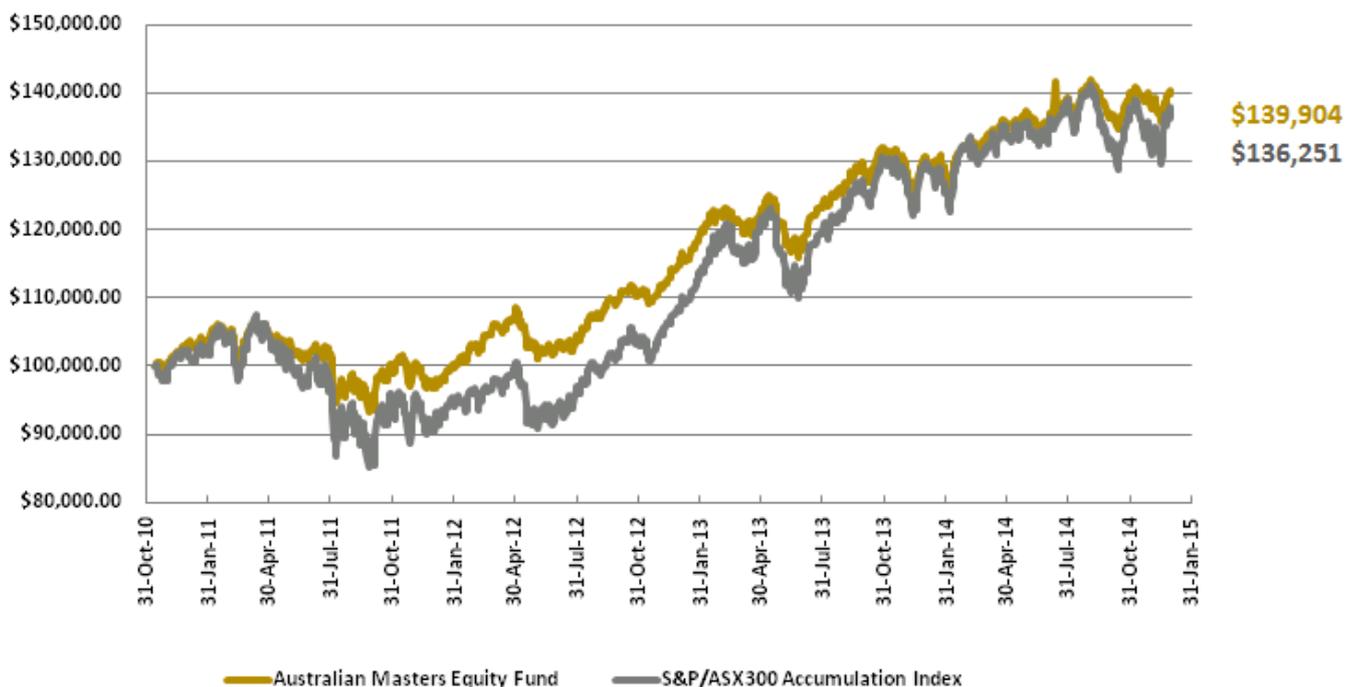
Fund performance at 31st December 2014

	3 Months	12 Months	Since Inception**
AMEF	2.36%	6.97%	39.90%
Benchmark*	2.94%	5.30%	36.25%
Difference	-0.58%	1.67%	3.65%

* S&P/ASX300 Accumulation Index

** Inception Date- 12 November 2010

Growth of \$100,000 invested since inception



Please note- past performance is not a reliable indicator for future performance. The Australian Masters Equity Fund inception date is 12th November 2010 and fund returns are to 31st December 2014. Performance is based on the NAV prices and is calculated by compounding daily time weighted returns and assumes 100% reinvestments of income. The S&P/ASX300 Accumulation index assume 100% reinvestments of dividends.

Commentary

The local Index started the month strongly in October, before commodity price weakness drove the market lower. After accounting for the re-investment of dividends, the market finished the year slightly ahead but still well behind returns seen in the U.S. and China. The oil price seemingly fell off a cliff in November, wreaking havoc on energy stocks. The AUD/USD cross rate continued to fall, declining 7% for the second consecutive quarter. Daily volatility continued to reign supreme in global markets as the VIX index closed up 18% for the quarter.

As expected the Reserve Bank of Australia (RBA) again chose to stay on the sidelines during the quarter, keeping the cash rate at the record low level of 2.5%. Rhetoric surrounding the cash rates changed markedly during the period from assumed rate increases in 2015 to expectations of a fall, with futures prices now implying a rate of 2.38% in March, falling to 2.17% by September 2015. Local data was mixed, with retail sales registering only 0.1% growth for August before rebounding to 1.2% growth for September. Building approvals fell 11% for September, considerably missing survey expectations of a 1% fall.

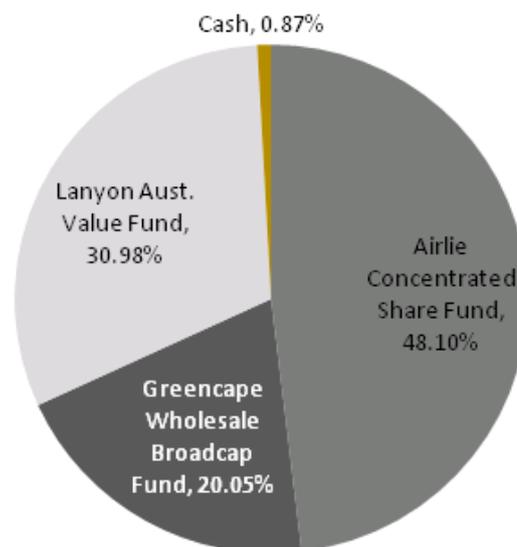
Greece re-emerged as an issue during December, with the country heading for an early election after the Prime Minister failed to get sufficient backing for his proposed candidate. Syriza (the anti-austerity party) is currently favoured to win the upcoming election on 25th January 2015. The local stock exchange in Greece fell 22% for the quarter, while the Euro fell 4%. Comments from German Chancellor Angela Merkel that a Greek exit from the Euro would be 'manageable' also spooked global markets. Greece's GDP has shrunk 25% since 2008.

U.S. markets fared well during the period, with the S&P500 closing up 4.4% and 11.4% for the quarter and 2014 calendar year respectively. Data from the U.S. continued to be strong, with Q3 GDP revised up to 3.9% growth. Gains in the past two quarters represent the best six-month stretch of growth since late 2003. U.S. non-farm payrolls registered a net addition of 321,000 in November, which strongly beat expectations of a 230,000 rise. This was the 10th successive month of net additions over 200,000. In December, the U.S. Consumer Confidence Index reached its highest level since February 2008. The Federal Reserve also completely wound down its QE3 bond buying program during the quarter.

The S&P/ASX 300 Accumulation index rose 2.94% for the quarter with AMEF underperforming the benchmark by 0.58% for the same period.

Portfolio Holdings as at 31st December 2014

	Strategic Weight
Airlie Concentrated Share Fund	48.10%
Greencape Wholesale Broadcap Fund	20.05%
Lanyon Aust. Value Fund	30.98%
Cash	0.87%



Underlying Manager Performance

Airlie Funds Management Pty Ltd

Airlie underperform the market by 2.2% over the quarter to 31st December 2014 but have still outperformed the market for the fiscal year to date by 1.81%. They have outperformed the market by 14.80% since inception (46.66% vs 31.86%). This is despite holding 20 odd per cent of the portfolio in cash over the entire period with the cash weighting being 25.06% at year end. Airlie is positioned defensively and its top five active positions are Caltex, National Australia Bank, Flight Centre, Elanor and Godfreys Group Ltd.

Greencape Capital

The S&P/ASX 300 Accumulation Index returned +2.94% for the quarter. The fund underperformed the market and delivered a +1.96% return over the quarter. Key contributors for the fund were Woolworths, Recall, Resmed, Origin and Twenty First Century Fox.

Lanyon Asset Management

The Lanyon Australian Value Fund posted a return of +1.5% (before fees) for the month of December, compared to a +2.0% gain for the S&P ASX 300 Accumulation index. For the year ended 31st December 2014, the Fund posted a return of +12.6%, compared to the index return of +5.3%. Lanyon finished the year with a cash balance of 54.9%. During the month of December, the fund exited its profitable position in the AIMS Property Securities Fund (ASX: APW). They sold their position at a discount to reported net tangible assets but in line with their estimate of fair value.

Unless otherwise specified, any information contained in this publication is current as at 31st December 2014 and is provided by the Australian Masters Equity Management (AMEM) ABN 28 141 461 083. It should be regarded as general information only & not as advice as all investments within the fund involve risk. This has been prepared without taking into account your investment objectives & financial situations. Each person should obtain a Product Disclosure Statement (PDS) relating to the Australian Masters Equity Fund & consider the PDS before making any decision about the product. A copy of the PDS can be obtained from AMEM on 1800 425 451 or on our website www.amem.com.au. Some or all of the directors of AMEM may benefit from fees & commissions of the Australian Masters Equity Fund.